COMMANDER, NAVAL SEA SYSTEMS COMMAND
4 February 2004

The Naval Sea Systems Command Team has made great strides in transforming into an agile and responsive organization. We completed a major restructuring that would have taken other large corporations our size years to accomplish. The Secretary of the Navy and CNO recognize our commitment to change and the dedication of our people in providing the most capable Navy in the world. The challenges of the last year have been great; however, the challenges continue. We must continue to search out efficiencies; readiness at any cost is not an option.

CNO's Guidance 2004 lays out an aggressive plan for continuing to streamline and transform the Navy while safeguarding current readiness. Secretary Young has set down similar benchmarks for operating our business efficiently, holding industry and ourselves to the highest standards of performance. Their focus, and ours, remains on getting the right level of readiness at the right cost so we can afford the right force for our future Navy. The enclosed guidance outlines a comprehensive strategy based on continued transformation, capturing further efficiencies, quantifiable metrics and disciplined execution.

Our Navy is transforming while fighting the Global War on Terror and evolving to face the asymmetric threats of the future. We are committed to being a cornerstone of that transformation. It will take the talents and commitment of every NAVSEA team member to ensure our success.

P. M. BALISLE
Vice Admiral, U.S. Navy

Last year I challenged each of you to aggressively restructure NAVSEA, our Headquarters/PEOs, our Naval Shipyards and our Warfare Centers. We did this to better align us with our business environment and our customer needs in a changing 21st Century. You embraced the challenge and made significant changes in our alignment while also making improvements in the areas I defined as our top priorities: Maintenance Initiatives, Increased Organizational Efficiency and Effectiveness, Defining and Implementing New Policies/Processes for NAVSEA Organizations, Resource Alignment and Development, and bringing definition and growth to the Virtual SYSCOM. Our successes in these areas are the bedrock upon which we will build in 2004. Understanding what we've accomplished in Phases 1, 2 and 3 is essential to our success in Phases 4 and out of our continued transformation. Accordingly, Chapter I of this guidance focuses in some considerable depth on the foundation achieved thus far, while Chapter II sets down our goals and objectives as we move ahead.

The foundation the NAVSEA team has built is strong. The unparalleled dedication of our people to ensure the safety of our Navy and our nation will continue to move us forward and ensure we maintain the asymmetric advantage that comes from technical excellence and an unwavering commitment to deliver a ready and capable Fleet.

OUR TRANSFORMATION
We are using a phased approach to our transformation, beginning each new phase while simultaneously implementing the previous phase. This approach and an overview of each phase are shown in Figure 1.
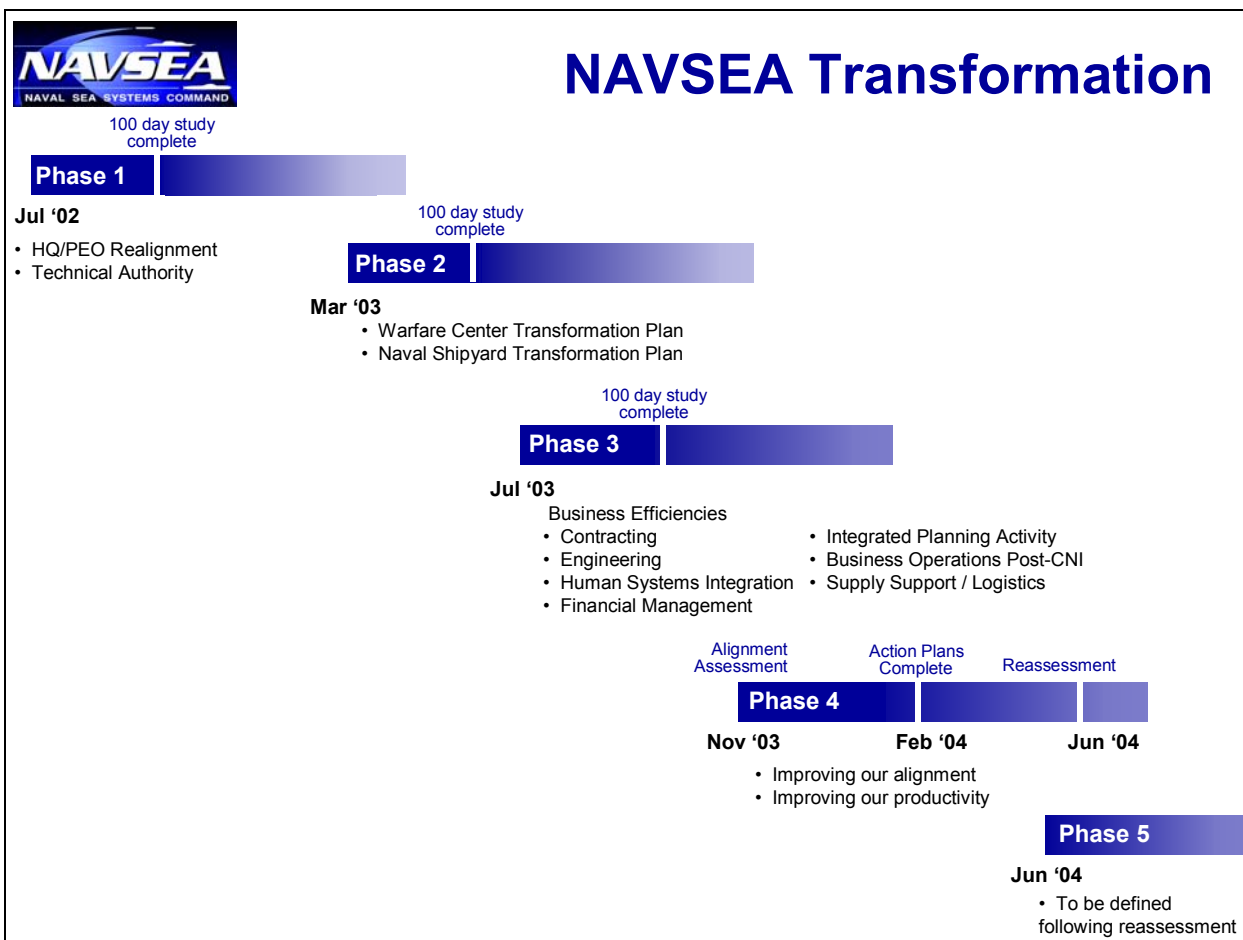
Figure 1

CHAPTER I: HIGHLIGHTING OUR SUCCESSES

We made many changes and advances in the last 12 months as we realigned the Headquarters, PEOs, Warfare Centers and Shipyards and pursued business efficiencies to improve productivity. Collectively these changes provided tangible improvement in the areas defined in my 2003 Guidance. It is impossible to capture everything we achieved in a few pages, but it is important to highlight our major successes in each area as we set our course ahead in 2004.

PHASE 1 – REALIGNING HEADQUARTERS AND THE PEOs

Phase 1 of our realignment efforts focused on *Headquarters and the PEOs*. We critically reviewed our responsibilities and processes and determined the most effective structure to support Sea Power 21.

- We established the Human Systems Integration (HSI) Directorate (SEA 03) to serve as NAVSEA's central point for CNO Revolution in Training initiatives, Task Force EXCEL alignment, and Sea Warrior. Specifically, we:

  o Established a measurable framework for certifying that ships and systems delivered to the Fleet are optimized for sailor performance by warranting HSI technical and certification authority and promulgating program and human performance metrics.

  o Developed first-ever Sailor System Specifications for DD(X). These specification wills provide the framework and metrics to develop the knowledge, skills and abilities to perform assigned functions and tasks as well as a tailored training system to support that proficiency.

  o Improved HSI technical designs and alignment of program HSI activities and resources by reviewing 15% of NAVSEA programs of record, including LCS, DD(X) and CVN 21.

  o Ensured proposed alterations and modification address the impact on Sailor performance and training requirements by incorporating HSI assessment and certification into the SHIPMAIN Alteration and Modernization approval process.

  o Identified training shortfalls prior to Fleet Response Plan (FRP) surge operations and provided web-enabled tailored training plans. Working with our SPAWAR partners, we initiated a Battle Force Training pilot program to address specific training for select Combat and HM&E systems onboard units of the ABRAHAM LINCOLN and HARRY S. TRUMAN Strike Groups.

  o Integrated interoperability training processes and guidelines with the Fleet Response Plan and incorporated HSI risk criteria in the CFFC C5I Modernization and Baseline Approval process.

  o Saved $15.M preparing the REAGAN Strike Group for deployment by sharing resources (ships, aircraft, labs) and clearly establishing interoperability training requirements. This effort included assignment of an Integrated Training Officer (ITO) as part of the REAGAN Strike Group team. The ITO

developed a coordinated testing and training strategy leveraging, wherever possible, training with test events.

- o Chartered a Human Performance Lab at NSWC Dahlgren to conduct integrated total system performance testing and ensure ship and system designs are optimized for enhanced Sailor performance.

- o Improved link training, reduced turnaround time for learning centers to receive technical data, and began to establish business rules for the Integrated Learning Environment technical data repository by achieving aligning among the Naval Education Training Center (NETC), Naval Personnel Development Command (NPDC), Learning Centers, Human Performance Center, Warfare Centers, and the Fleet.

- o Signed and published the Virtual SYSCOM HSI Memorandum of Agreement (MOA) to align common practices, improve coordination, share IT systems and tools, reduce Total Ownership Costs, and share HSI workforce training opportunities at a corporate level across the SYSCOMs.

- We established the Warfare Systems Engineering Directorate (SEA 06), ensuring focused combat system "system of systems" engineering.

- o Clarified the role of engineering and technical authority for warfare systems and combat systems engineering by creating and deploying the technical authority framework and warrants.

- o Realigned the Distributed Engineering Plant (DEP) combat system software testing and assessment approach to adapt to the Fleet Response Plan's fluid Strike Group composition and scheduling constructs.

- o Developed the Surface Ship Technology (SURFTECH) organization and processes to facilitate the timely and cost-effective transition of technologies to the Surface Fleet by working with the Director, Surface Warfare and COMNAVSURFOR. SURFTECH is providing improved coordination and communication between Fleet/Senior SWO Leadership, S&T and R&D activities, PEOs, Program Managers, and Resource Sponsors. Achievements include:
  - Completed a Warfighting Assessment based on the N70 Mission Capabilities Package (MCP) gap analysis.
  - Identified critical technology needs within and across the Sea Pillars for Future Naval Capabilities (FNC) and other S&T/R&D efforts.

o Established the POM Integration Group within SEA 06 to integrate the NAVSEA/PEO technical and programmatic assessments for the Sea Shield and Sea Basing pillars of Sea Power 21. This group is assessing warfighting capabilities in a family of systems construct that identifies capability gaps, overlaps, and schedule and cost issues for OPNAV's use in making critical programmatic decisions.

- We improved our business processes while accommodating the budgeted 17% reduction in Headquarters and PEO personnel with no Reduction In Force (RIF) actions and no degradation of service. We conducted an independent review of our processes in four (4) major business areas (Engineering, Financial Management, Command Support, and Logistics) and implementing the resulting recommendations.

- We worked with ASN(RD&A) to realign the PEO structure to focus on their "build and buy" responsibilities and more closely align to the ASN(RD&A) DASN structure.

PHASE 1 – TECHNICAL AUTHORITY
In addition to the realignments in Phase 1, we clarified, realigned and formalized *Technical Authority* as a vital component of the NAVSEA mission, both in Fleet Support and in the design and delivery of Tomorrow's Navy. Specifically, we:

- Established the technical decision-making process and formalized the designation of 147 technical warrants by issuing more definitive NAVSEA Warranted Technical Authority.

- Engaged members of the NASA Review team to conduct an independent assessment of NAVSEA's Technical Authority functions and alignment. This review provided confirmation that our process is correctly designed, while identifying execution shortfalls that are being addressed by the Phase 3 and 4 Engineering actions directed in this guidance. The Phase 3 Engineering actions will also incorporate NASA's lessons learned from the COLUMBIA.

PHASE 2 – WARFARE CENTER TRANSFORMATION
In Phase 2 of our realignment, we developed and began implementation of the *Warfare Center Transformation Plan,* focused on new operations and processes that result in NSWC and NUWC operating seamlessly as a corporate enterprise, instituted a new approach to work acceptance in the Warfare Centers, and established a national focus on product

areas. Full implementation of the Warfare Center Transformation Plan will result in a markedly more cost effective approach to assigning work while ensuring we maintain the capabilities needed for Today's Navy, Tomorrow's Navy and the Navy After Next. Specifically, we:

- Established governing boards to operate the new Warfare Center concept: the Warfare Center Policy Board and the Warfare Center Board of Directors.

- Ensured we employ our best talent to achieve available efficiencies in the execution of assigned work by assigning Product Area Directors (PADs) with national responsibilities for workload management in 12 key product areas.

- Ensured only appropriate work is accepted by the Warfare Centers and the work is synergistically executed by the appropriate workforce by designating a Work Assignment Executive and establishing a disciplined work acceptance process.

- Engaged execution of collaborative business activities across the Warfare Center enterprise and supported common business initiatives and operations by designating a Business Executive to lead and promote integration.

- Reinforced the roles of the Warfare Center Commanding Officers in executing the efficient running of the day-to-day business at each Warfare Center Division.

PHASE 2 – NAVAL SHIPYARD TRANSFORMATION
We developed and began implementation of the ***Naval Shipyard Transformation Plan*** to ensure our Shipyards are ready to fully support the Fleet Response Plan. The transformation pillars include:

- One Shipyard – Building Industrial Surge Capability and Improving Productivity:

  o Identified compatible business processes across the public nuclear shipyards with a focus on sharing best practices and minimizing the number of processes. This effort included:
    ▪ Implemented the Lead Shipyard concept for the SSN 688 Class, capturing and sharing best practices across the shipyards. As the lead SSN 688 Class Shipyard, Portsmouth Naval Shipyard is currently executing submarine Depot Maintenance Periods at or

below notional costs and is on track to execute an Engineered Refueling Overhaul below the notional manday costs.
- Continued SSN 688 Ship Availability Planning & Engineering Center (SHAPEC) efforts yielded cost efficiencies from 1997-2003 in the following planning efforts:
  - SRAs: 1,500 to 800 mandays (46% reduction).
  - DMPs: 9,000 to 4,200 mandays (58% reduction).
  - EROs: 19,000 to 7,200 mandays (62% reduction).
  Specifically, the following savings were achieved in FY03:
  - NORFOLK (SSN 714) FY03 ERO: Completed in 7,200 mandays; returned $249,074 to NAVSEA.
  - USS JEFFERSON CITY (SSN 759) FY03 DMP: Completed in 3,662 mandays; returned $320,829 to SUBPAC.
  These savings resulted from preparing standardized work instructions for all depot level maintenance, reducing corporate planning infrastructure by consolidating engineering and planning functions, and improving efficiency through the use of reusable products.

- Enabled more industrial surge capability to meet the Fleet Response Plan by reducing total direct overtime at the Naval Shipyards by 5%. Applied Theory of Constraints concepts and increased management controls over in-yard overtime. Simultaneously we reduced the cost of operating the Naval Shipyards through innovative planning and comprehensive process reviews.

- Reduced overhead expenses and provided more flexible work assignment and scheduling by transferring a second Naval Shipyard into Resource Management System (Mission Funding) and integrating it with the Intermediate Maintenance Activities.

- Increased sharing of resources among the four (4) public and two (2) private nuclear shipyards by implementing Flexible Workforce/Workload approach.

- Completed the USS VINSON 300K-plus manday Planned Incremental Availability (PIA) in just over five (5) months, a first for a CVN PIA.

- Infrastructure and Organization:

  - Established partnership agreements between Naval Shipyards, Electric Boat and Northrop Grumman Newport News leading to workforce sharing, idea generation, and potential cost savings due to the reduction of process, equipment and facility

redundancies. Specifically General Dynamic Electric Boat Division (EB), traditionally a new construction shipyard, is using standardized processes and planning products developed in the Naval Shipyards. This promises to significantly reduce inefficiencies related to new product line "first time" availabilities.

o Enabled effective decision-making across the shipyard community by realigning the Enterprise Resource Flag Panel into a "One Nuclear Shipyard Flag Panel". This process provides a forum to propose and address workload, resource, safety, contractual, and legal issues related to work on nuclear ships within the six (6) nuclear shipyards. Based on experience to date, savings will result from leveling workload, sharing critical skills to meet schedules, sharing planning products to reduce planning costs, and sharing best work processes to improve efficiency.

- Material – Volume Buys and Rotatable Pools:

o Reduced cost of contract with Metals USA by 18%, yielding $4M in savings through 2008 compared to the last shipyard material contract. These savings resulted from reviewing/renegotiating shipyard material contracts.

o Eliminated redundancies and overlap at the waterfront while permitting the implementation of Performance-Based Service Contract (PBSCs). Worked collaboratively among SEA 04, SEA 02, SUPSHIPs, Regional Maintenance Center (RMC), and NAVSUP to define waterfront contracting lines of authority.

We pursued other shipyard initiatives beyond those in the Naval Shipyard Transformation Plan, including:

- National Shipbuilding Research Program (NSRP):

o Reduced product development time and engineering rework, resulting in a projected annual cost avoidance of up to $147M through the use of three new international shipbuilding standards for engineering data exchange.

o Saved a projected $2.4M per boat for each of the VIRGINIA class submarines by developing a paperless Vendor Information Request process through the Shipbuilding Partners and Suppliers (SPARS).

o Reduced part content in future ship designs and provided virtual inventory capability through generation and use of the

Common Parts Catalog database. Electric Boat, Bath Iron Works, and Northrop Grumman Ship Systems started development of the database, scheduled to be operational mid-FY04, to share part information across multiple shipyards and IT systems, promising significant long-term efficiencies.

o Reduced cost and/or cycle time by 40% or more in several shipyard production shops by implementing the Lean Shipbuilding Initiative (LSI). This contributed directly to shorter maintenance availabilities on various Carrier, Amphibious, and Surface Combatant platforms.

- Provided flexible, responsive repair contracts by instituting Private Sector Multi-Ship/Multi-Option (MSMO) contracts for surface ship maintenance continuity and improvement, aligning contract strategies between the East and West Coasts. The planned East Coast DDG MSMO contracts for modernization and maintenance promise cost efficiencies and improved schedule flexibility in support of the Fleet Response Plan and will be used as the template for implementing MSMO contracts on other ship classes.

While realignment was a major focus of our efforts in 2003, we also achieved significant successes in other priority areas defined in my 2003 Guidance.

MAINTENANCE INITIATIVES
We focused on the Navy's maintenance philosophy and practices in support of the Fleet Response Plan and the Navy's requirement to create a readiness posture that will support on-demand surge capability. Specifically, we:

- Created a single process for the identification and management of all Alterations and Modifications by supporting the development and implementation of SHIPMAIN improvements, waterfront realignment, and a major revision to the modernization process.

o Aligned the port engineer and Condition-Based Maintenance concepts into the SHIPMAIN process and maintenance team and supported incorporation of the SUPSHIPs, port engineers, and maintenance teams into a consolidated waterfront Regional Maintenance Center (RMC).

o Ensured all surface ship maintenance decisions are based on documented assessment results and associated figures of merit

that relate maintenance to the required material readiness of the ship.

- Realigned New Construction SUPSHIP Pascagoula and SUPSHIP New Orleans into a single SUPSHIP Gulf Coast.

- Reduced redundancies and enhanced support for Fleet requirements by transferring Supply and Logistics functions from the SUPSHIPs to NAVSUP as part of the Virtual SYSCOM actions. This continues the shift of logistics functions to NAVSUP as the common Navy provider of these functions, and permits efficiency improvements as NAVSUP aligns its supply chain. Manpower savings of 30% by FY07 are projected.

- Reduced hours per tech assist by over 40% and avoided $2M per year of direct travel costs by expanding Distance Support operations as a key mission readiness enabler to efficient and effective surge operations and maintenance of a rapidly deployable force. This effort also returned mission critical systems and equipment to operational readiness sooner.

- Averted or corrected 1,015 CASREPS and avoided $40.2M in OPTAR by delivering 328 new Gold Disk test procedures to the Fleet as part of the miniature/micro-miniature module test and repair (2M MTR) and completing a three year effort to outfit approximately 300 ships and shore commands with second generation Gold Disk test systems.

- Reduced annual Fleet-wide surface ship Preventive Maintenance System (PMS) workload by more than 30,000 manhours by continual application of the disciplined Surface Ship Maintenance Effectiveness Review (SURFMER) Backfit Reliability-Centered Maintenance process.

RESOURCE ALIGNMENT AND DEVELOPMENT
We aggressively pursued efficiencies through realignment, improvement of our business processes, and reductions in operating costs. The savings we realized were used for recapitalization of the Fleet.

- Identified $575M FY04 savings already applied in the Navy's Program of Record (POR) by actively supporting Sea Enterprise initiatives. Additionally, we identified $4.7B savings across the FY05-09 FYDP (FY05 President's Budget), including:

- o Returned $848M across the FYDP to the OPNAV POM through our "Skunk Works" initiatives.

- o Returned $449M across the FYDP to the OPNAV POM through our LOE program review with Fleet and Resource Sponsors.

- o Returned additional execution year funds to finance additional efficiency initiatives by implementing efficiencies identified with the assistance of DeWolff, Boberg, & Associates (DBA).

- We also "opened our books" to review by Booz-Allen-Hamilton (BAH) analysts and exceeded their savings recommendations.

VIRTUAL SYSCOM

The Virtual SYSCOM evolved into a focused, results-oriented corporate management team. The SYSCOM Commanders committed to collaboratively leveraging the strengths of the SYSCOMs, reducing redundancies and minimizing infrastructure while supporting the integrated operations and support needs of the Fleet. In 2003, NAVSEA, in collaboration with NAVAIR, SPAWAR and NAVSUP:

- Ensured a more common approach to supply and logistics management functions through Signed Memorandums of Agreement, including:

  - o Designating NAVSUP as the Supply Chain Manager for all SYSCOMs.

  - o Transferring SUPSHIP Material Management functions to Fleet & Industrial Support Centers (FISCs).

  - o Transferring Outfitting account functions to Naval Inventory Control Point (NAVICP), Mechanicsburg.

  - o Transferring 2COG Material Management to NAVICP.

- Established a common process and framework to institute HSI principles across all products and systems.

- Designated COMSPAWAR as the Command, Control, Computers, Communication & Intelligence (C4I) Chief Engineer.

- Established NAVAIR as the Strategic Sourcing Acquisition Center of Excellence for SYSCOM mission functions. This will ensure a consistent approach to strategic sourcing and provide for economies and efficiencies from centralization.

- Signed the Virtual SYSCOM Charter defining the construct of, and governance process for, conduct of Virtual SYSCOM operations, development of products and outcomes, and resolution of issues.

A more detailed list of Virtual SYSCOM accomplishments for 2003 and specific taskings for 2004 will be promulgated by separate correspondence by Virtual SYSCOM directive.

CHAPTER II: SETTING THE COURSE FOR 2004

Our focus this year is directly and inextricably linked to and serves as an extension of our 2003 initiatives. Our objectives for 2004:

- **Instill the culture of transformation at all levels.**
- **Prove the product of the plan – through implementation and reporting of meaningful metrics.**
- **Identify and harvest more efficiencies to meet, and, where possible, exceed the Sea Enterprise Board "intelligent target" for annual efficiencies and cost reductions.**
- **Stay the course we've set while taking it to the next level.**

This guidance identifies specific objectives for each of NAVSEA's principal Lines of Business. We must continue to gain efficiencies; as CNO stated in his 2004 guidance, "…readiness at any cost is not acceptable."

INTELLIGENT TARGETS

CNO asked all Echelon II Commands to achieve a 3% to 5% annual savings in their Total Obligational Authority (TOA). In the current FY05 President's Budget, NAVSEA (including PEOs and Field Activities) has returned about 4% of our TOA in each of the first few years of the FYDP. The requirement for these new annual savings is in addition to our previous efforts.

The vast majority of new savings are expected to come from improvements in productivity and business efficiencies, substituting technology for labor, overhead reduction, consolidation of like efforts, elimination of excesses, and more cost effective contracting practices. VCNO and ASN(RD&A) tasked Corporate NAVSEA to begin a collaborative process to identify savings that will contribute to a Navy-wide POM 06 target of 5% real savings. These savings are essential to support modernization and recapitalization of the Fleet. Current acquisition program strategies, such as multi-year procurements, will be recognized in establishing savings baselines. Program requirements will be reviewed by an N7, ASN(RD&A) and Fleet team. Every organization must develop a plan to achieve these savings. The overall Command plan will be presented to the Sea Enterprise Board of Directors in March. They will assess the risk and make recommendations to CNO and SECNAV as part of the overall DON FYDP strategy.

PHASE 4 – ASSESSING AND IMPROVING OUR ALIGNMENT

In order to achieve the programmatic cost efficiencies outlined above, we must also continue to improve the alignment of our organization. Solidifying our alignment is necessary to accelerate the gains in productivity and efficiency that will result from our transformation. In late 2003, the majority of the Command participated in an on-line assessment (the GENESYS survey) designed to tell us how well we've achieved alignment around the new organizational structures and other initiatives we established in Phases 1 and 2. The focus of Phase 4 is analysis of the 2003 assessment and deployment of initiatives needed to improve our alignment, and, more importantly, our productivity.

Our alignment assessment highlighted three areas that require focused improvement efforts across the Command: Rewards and Recognition, Performance Accountability, and Innovation. Senior-level teams are addressing each of these areas; the recommendations of these teams must be incorporated in your individual Execution Plans.

Rewards and Recognition and Performance Accountability are being addressed by a single team. The efforts of this team are useful for the FY04 deployment of the Navy's new civilian personnel system, the National Security Personnel System (NSPS). This system will dramatically change performance management and recognition for many of our NAVSEA civilian employees. Many of the results and findings from our alignment assessment can be directly used in the design of the performance management system for first and second level supervisors and employees. The knowledge we gained from our recent assessment will help us to deploy NSPS in a fashion that supports our alignment efforts. It is most important we use the results of our Phase 4 work to jump-start the deployment of NSPS.

Each of the Headquarters/PEOs, Naval Shipyards, and Warfare Centers must address specific actions resulting from our alignment assessment in your Execution Plan, including:

- Plans to sustain your strengths and address your areas of misalignment (e.g., your "Top 3" and "Bottom 3").
- Metrics associated with accomplishing these plans prior to the second round assessment in mid-2004.
- Plans for continuing to sustain these improvements after the second round assessment in mid-2004.

In mid-2004 we will assess again (via GENESYS survey) the alignment of our organization to ensure appropriate progress is being made by every Line of Business and Organization and that we are achieving

the alignment necessary to deliver the productivity and efficiency required by our Navy.

LINES OF BUSINESS
Each Business Lead has the responsibility to develop a detailed Execution Plan for their respective area, including all subordinate lines of business. The Lines of Business and designated Business Leads are:

- **Engineering – Lead: RADM(S) Sullivan, SEA 05/Chair Technical Authority Board**
  - Undersea Warfare Engineering
  - Ship Design, Integration and Engineering
  - Warfare Systems Engineering
  - Human Systems Integration

- **Industrial Operations – Lead: RADM Klemm, SEA 04**
  - Maintenance and Logistics
  - Naval Shipyards
  - SUPSHIPs

- **Warfare Centers – Lead: RADM Lengerich, SEA 09/Chair Warfare Center Policy Board**
  - Naval Surface Warfare Center
  - Naval Undersea Warfare Center

- **Business & Operations – Lead: Pete Brown, SEA 00B**
  - Comptroller and Financial Management
  - Cost Engineering
  - Contracting
  - Command Operations and IT

ENGINEERING
We design and put to sea the most capable Navy in the world; however, it is not enough to field capable platforms for our Sailors, we must also look for joint solutions to the Global War on Terror. We must continue to push Human Systems Integration into every design to maximize sailor performance, and maintain and strengthen our Technical Authority to ensure we can continue to develop and field the best systems possible.

Actions for Engineering:
- Improve efficiency and effectiveness of our platforms.
  (CNOG p.13-14)

- o Incorporate fuel efficiency into acquisition and modernization plans and, wherever possible, through retrofit into our legacy force.
  - o Develop and experiment with alternative propulsion and power generation systems for all naval applications.
  - o Assemble energy savings packages for consideration in the Energy Savings Performance Contracts (ESPC) legislation and assessment by the Sea Enterprise Board of Directors for Navy execution – by Feb 04.

- Work with CFFC to apply lessons learned from Optimal Manning experiments and identify the technical support and technology required to develop and implement an Optimal Manning strategy throughout the force. *(CNOG, p.9)*

- Develop the objectives, funding required, and metrics for the specifications and standards program – by 30 April for inclusion in POM 06.

- Define the principles and business case for how we determine Engineering Core/Non-Core functions – what level of capability do we keep in-house? – by 30 May.
  - o Define the processes, staffing levels, and metrics.

- Complete the Technical Authority Board's actions as defined in NAVSEANOTE 5400 – NAVSEA Warranted Technical Authorities – by 9 April.
  - o Propose updates to "Engineering and Technical Authority" (NAVSEAINST 5400.97A of 3 Feb 03) and "Systems Engineering and Technical Authority" (NAVSEAINST 5400.61D of 3 Feb 03) to better define the roles of Cost Engineering Managers and Chief Systems Engineers.

- Complete the Phase 3 Engineering tasks – by 30 March.
  - o Define and create the support "pyramids" for each Technical Authority.
  - o Identify and resolve issues that impede long-term health of the Engineering function and workforce Command-wide.
  - o Address the execution shortfalls in our technical authority functions and alignment as identified in the independent review of NAVSEA's Technical Authority.

- Implement your Phase 4 recommendations, ensuring the understanding, acceptance and continuation of Technical Authority and the health of the engineering community – by 30 June.

- Formalize the Virtual SYSCOM approach to HSI – by 30 May.

- Work with the Virtual SYSCOM to establish a corporate approach to SYSCOM-assigned technical authorities; use the NAVSEA Technical Authority Board as the model – by 30 June.

INDUSTRIAL OPERATIONS
We must continue to support the Fleet Response Plan, finding ways to optimize and improve efficiencies in every availability.

Actions for Industrial Operations:
- Continue the implementation of the Naval Shipyard Transformation Plan. Include savings associated with NAVSEA TOA in the Command's Intelligent Target for POM 06. Support the Fleet with comparable savings in Fleet TOA – by 30 April.

- Develop the Business Case for new construction SUPSHIPs staffing. Determine the right investment in people to maximize the return. The Business Case must be based on ROI and quantitative metrics – by 30 April.

- Complete the transition of Shipyards to Mission Funding in FY04/05.

- Complete the transition of Repair SUPSHIPs to the Fleet - by 30 Sep.

- Complete Phase 3 tasks (Business Operations Post-CNI and Logistics/Supply Support) – by 30 March.
  o Business Operations Post-CNI: Define metrics and measures of post-CNI service performance – both CNI and Command-mission.
  o Logistics and Supply Support:
    - Complete the process of alignment with NAVSUP.
    - Integrate the support alignment with NAVSUP into a more common framework for the PEO's product lines.

- Coordinate and integrate Distance Support products such as Technical Documentation Knowledge Management (TDKM) and Non-Tactical Data Processing System (NTDPS) into a cohesive effort leveraging best of breed products.

- Continue expansion of Distance Support Integrated Condition Assessment System (ICAS) remote monitoring capability. Develop and evaluate new technologies to provide remote troubleshooting and analysis capability.

- Implement your Phase 4 recommendations for the Naval Shipyard Transformation Plan – by 30 June.

Performance-Based Logistics(PBL)

PBL requires a number of diverse organizations to develop, assess and then execute a PBL strategy. SEA 04 and PEO IWS will lead the PBL team.

Actions for the PBL team:
- Complete the development and deployment of baseline PBL policies, processes and assessment techniques initiated during the Phase 3 Alignment tasks – by 30 March:
  o Command-wide policy Instruction.
  o Formal and standard Business Case Analysis process and content.
  o Guide to PBL implementation.

- Create and track the master plan and schedule for PBL assessment of current and future weapon systems. Identify the decision points for appropriate weapon systems and provide measures and metrics for tracking progress in these assessments and decisions – by 30 April.

- Formalize the Virtual SYSCOM's approach to PBL – by 30 June.

WARFARE CENTERS

The transition to the new business model within the Warfare Centers is critical to our continued success. We must ensure we provide the services the Navy and the nation need at the best possible price. At the same time, we must ensure the continuation of our core competencies to support execution of technical authority actions and to ensure we remain a viable peer of industry. This balance is the key to our continued success. The Warfare Centers must continue to drive down total costs as much as possible.

Actions for the Warfare Centers:
- Complete implementation of the Warfare Center Transformation Plan and CONOPs – by 30 Sep.

- Define the impact of our Warfare Center "National Assets" on rates and develop alternative business models – by 30 May for POM 06 consideration.
- Work with PEOs, Fleet and OPTEVFOR to reduce T&E costs by 20% *(CNOG, p.16)* - by 30 Aug for POM 06 consideration.

- Develop a process for the Warfare Centers to present a consolidated proposal to the customers, which incorporates the work done at all sites - by 1 Oct.

- Develop and deploy a system enabling comprehensive online access to timely business information, overall program management, and performance measures supporting NAVSEA HQ, PEOs, and Warfare Center goals, decision-making, and reporting requirements – by 1 Aug.

- Develop a strategy to maximize standardization of IT hardware systems and networks across the warfare centers, resulting in reduced overhead costs – by 1 Oct.

- Standardize and deploy common business metrics across the warfare centers – by 30 Mar.

- Complete the alpha and beta trials on the Work Assignment Process – by Feb 04.

- Finalize and implement the work assignment process, including the Business Case to prove the work assignment process is cost effective – by 30 May.

- Implement your Phase 4 recommendations, ensuring the successful implementation of the Warfare Center Transformation Plan – by 30 June.

- Support the Virtual SYSCOM's Guidance for 2004.

BUSINESS AND OPERATIONS
Our Business and Operations line of business spans many functions. We must continually strive to reduce costs and gain efficiencies for every function within this line of business. Two specific areas of concentration are financial management and contracting; the tasks in those areas are delineated below.

Financial Management Team
The Command's financial management functions have a depth and breadth that crosses the entire Command. The overall goals for the financial management team include the support of Navy-level initiatives; alignment to support cross-SYSCOM initiatives from the Virtual SYSCOM; and internal NAVSEA, PEO, and Field Activity alignments to improve the overall Command financial processes. SEA

01 and PEO SUB will lead a Command-wide financial management team. The team's actions include:

- Act as the Command Action group in support of the Navy Business/Financial Management Executive Steering Group (ESG). This ESG is to be chaired by ASN(FM&C) and ASN(RD&A) leadership. Support and execute the business/financial management process and alignment changes that are approved by that body. The scope of the ESG will include:
  o Organizational and authority alignment,
  o Delegation of authorities (such as 31 USC 1301(a)),
  o Standardization of financial processes and work products.

- Under the guidance and leadership of FMB and DACM, create and deploy a common comptroller and business/financial management "community" across the Command and in concert with the Virtual SYSCOM – by 30 September.

- Complete the approved initiatives from the Financial Management Phase 3 Alignment tasks, including the NEC-approved rollout of the end-to-end funding flow from NAVSEA/PEO to the Warfare Centers – by 30 May.
  o Execute the approved process and alignments from the Business/Financial Management ESG above.
  o Lead Command preparations for Navy Converged ERP financial functions.

- Shift the Command to a common program/work breakdown structure (WBS) – by 1 Oct.

- Link financial systems across HQ, PEOs and Warfare Centers, and reduce the number of FM systems (retire legacy systems) as much as practical prior to deployment of Converged ERP - by 1 Oct.

- Develop and execute the financial management alignment initiatives from the Virtual SYSCOM's 2004 Guidance – by 30 Aug.

Contracting
The Command's contracting functions carry both an "authority" component (the warrant) and a business operations/service component (the acquisition strategy/support of the PEOs). The contracting authority and function crosses the Command from Headquarters to the SUPSHIPs and the Warfare Centers. SEA 02 and PEO SHIPS will lead the cross-Command Contracting team in the following actions:

- Undertake a review of the policies, regulations and current practices that drive the "content" and costs of our contracting process. Include a review of the clauses and RFP/Contract language that may be adding costs and cycle time to our hardware and support contracts. Conduct this review at the "national" Command level – by 30 June.

- Complete the approved initiatives from the Financial Management Phase 3 Alignment tasks.
  o Complete the deployment of the realigned Warrant authority. This includes Warfare Centers, SUPSHIPs and Repair SUPSHIPs transferring to the Fleet RMCs – by 30 May.
  o Improve the operations and cycle-time of the current SEAPort contracts and process – by 30 June.
  o Improve the processing time for contracts/financial actions – provide plan of action with metrics by 30 July.
  o Solicit, award and place into operation the SEAPort Enhanced performance-based service contracts structure for the Warfare Centers. Generate metrics to measure resultant savings – by 30 April.
  o Finalize the supporting manpower "pyramids" and complete the evaluation and strategy/plan to improve the health of the contracting workforce across the Command – by 30 March.

- Define Core/Non-Core as it relates to the contracting function. Include the principles of how we determine the level of capability that must be kept in-house - by 30 May.

- Define the workload for contract organizations across the Command in a common set of work elements in a national work breakdown structure (WBS). Assess workload and workforce balance using these metrics – by 30 March.

- Conduct a pilot application of a Navy Workload and Performance System (NWPS) in the Headquarters contracts organization – by 30 September.

- Support the Virtual SYSCOM's Guidance for 2004.

Additional Actions for Business and Operations:
The Business and Operations line of business has actions beyond those of the Financial and Contracting teams.

- Work with the PEOs to identify acquisition rules and processes that prevent the Navy from being effective and/or efficient – by 31 July.

- Every line of business within the Business and Operations sector must implement their Phase 4 recommendations – by 30 June.

- Support the Navy's implementation of the civilian workforce in Navy TFMMS as the authorized baseline.

- Through the Virtual SYSCOM, explore the possibility of partnering with other services on specific functions. *(CNOG, p.20)* Report findings by 1 May.

EXECUTION PLANS

A key aspect of the Command Guidance for 2004 is the execution and metrics of our plans and progress. To accomplish this, each Principal and Subordinate Line of Business, as well as all Echelon 3 and 4 activities, will develop an Execution Plan (defined in Appendix A), addressing but not limited to this guidance, and track their progress against that Plan.

The Business Leads will approve the initial Execution Plans for each subordinate line of business, and must ensure the appropriate metrics are developed and tracked at every level of their business. Note the Business Lead will develop two Execution Plans – one for their immediate line of business (e.g., Ship Design, Integration & Engineering – SEA 05) as well as one for their corporate business portfolio (e.g., Engineering – SEA 03, SEA 05, SEA 06, SEA 07, SUBMEPP, NOSSA and EODTECHDIV).

The Business Leads should consolidate the plans into the Line of Business Execution Plan and submit them to me via SEA 10. I will approve the initial Execution Plans for each Principal Line of Business. Progress reports on these Principal Line of Business Execution Plans will be due quarterly, with the first set of plans due just prior to the Commander's Conference, 25-26 February 2004. These baseline plans will be the main topic of the February Commander's Conference. Updates to the Principal Lines of Business Execution Plans will be due 31 May, 31 Aug, and 30 Nov. Business Leads will define the schedule requirements for submission of the Subordinate Lines of Business' Execution Plans and provide feedback after each submission.

In order to ensure vigilance at all levels of management, and to foster sharing of best practices across the enterprise, I will conduct Execution Reviews at Echelon 3 and Echelon 4 activities throughout 2004. During those reviews, I expect to see detailed progress assessments against each activity's Execution Plan (defined in Appendix A). You should highlight where you stand in your

execution of this guidance, with specifics on productivity, as well as defining your successes and barriers (Political/ Congressional, Legislative, Navy Policy, CIVPERS Policy, etc).

CONCLUSIONS

The actions defined in this document are just the beginning. We must continue to find efficiencies and manage the risks inherent in running a lean organization that spends every dollar to optimum advantage. Every level of the NAVSEA Team should look for better ways to do business. It requires the dedication and commitment of the entire NAVSEA Team to succeed.

Our successes are the result of your leadership and your willingness to take risks and make the hard choices. Now we must aggressively execute our mission, maintain the momentum of change, and accelerate our advantages. Our future requires your steady leadership and continued commitment to the job before us.

Stand ready. Our Sailors and our Nation are depending on us. We must and will succeed.

APPENDIX A – EXECUTION PLAN CONTENT

The Execution Plans should be short and concise – 10 to 20 pages. The baseline content for each plan will be:

- Line of Business (Defined scope/organizations/process owners, etc.)
  - General content of that Line of Business.
  - FY04 dollars appropriated or have authority over.
  - Number of Civilian & Military personnel, as well as the number of Contractor workyears included.
  - Major functional areas included.
  - Governing Board/Chartered oversight, etc.
  - Key Leaders (named).

- Key 2004 Command Guidance initiatives included in the Line of Business portfolio
  - Phase 4 Action Plans.
  - Integrated version of the portfolio of initiatives.
  - A short "brief" of what each of the **Top 5** initiatives (as defined by you) under your cognizance means to that Line of Business.

- Action Plan and Schedule 2004
  - Summary level action plan and schedule that integrates the 2004 Guidance and portrays how and when that Line of Business will address the integrated initiatives.
  - Ongoing initiatives (such as the Shipyard Transformation Plan) require an update to the current plan, including new aspects from the 2004 Guidance.

- Efficiencies and Savings
  - A summary of the current savings targets and accomplishments across the FYDP that are part of the baseline (assume baseline is the President's FY05 Budget Submit).
  - Identify the additional target savings across the FYDP and summarize how you expect to meet those targets.

- Metrics
  - Identify and provide the baseline Metrics you will use to track your business (recommend no more than 10). These should be high-level metrics you use to manage your business at the Senior Leader level. One of these metrics must be a measure of productivity.
  - Identify and provide the baseline metrics you will use to track the progress of each initiative in your portfolio.

- Identify and provide the baseline metrics you will use to track your costs and savings for each initiative in 2004.
- Metrics must include ROI.

- Execution Plan Leader's Intentions/Issues
  - Provide your concerns and plan to address them.

Every Execution Plan must also address the following areas defined by CNO in the general Echelon II feedback:
- Innovation
- Business Acumen
- Challenging Assumptions
- Technology